

Better Financial Administration Through Reports 12

Much has been said about cost-based budgeting in the Organization and the commitment to prepare one for ~~Fiscal Year~~ 1962. Up to now, less emphasis has been placed on another and equally important requirement of Public Law 863 which is, "For purposes of administration and operation, such cost-based budgets shall be used by all departments and establishments and their subordinate units."

To implement these requirements the Organization plans to have the operating budgets for ~~Fiscal Year~~ 1960 submitted on a cost basis. If we are to follow through and test the effectiveness of our cost system in serving the "purposes of administration and operation", we must have a reporting system that furnishes management-type information. Since top management spends most of its time in considering the future, our historical cost data are of value primarily in ~~that~~ ^{ing} ~~they provide~~ insight into the future. The cost-center Report currently issued by the Comptroller is being developed to provide such information. This report is designed to serve two requirements of operating management:

1. A device whereby actual operating costs can be compared with planned costs, and
2. Furnish financial data that will assist operating officials in making decisions concerning the future use of resources.

With such information, management is in a better position to control operations and the use of allocated resources. Let us review the current report and see if it serves these management requirements. The report format is as follows:

Cost Center	Obligations			Fund Expenditures	Total	Project/ Admin. Limitation
	Funds	Property	Total			
(1)	(2)	(3)	(4)	(5)	(6)	(7)

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The columns of the report furnish the following information:

(1) Cost Center - The first line gives the name of the unit (organizational, project, activity) selected for the purpose of accumulating costs that can be identified with a single management responsibility. The second line gives the cost center or account number used for identification and machine accounting purposes.

(2) (3) (4) Obligations - Although allotments of obligating authority are ~~being~~ made at higher levels, each allottee ~~is delegating~~ a part of his authority to lower operating levels to expedite the conduct of operations. Therefore, information must be made available at the cost-center level to enable management to review and control the use of the obligating authority that has been granted by the Director. When the Organization changes to a cost-control basis, obligations by cost center will be dropped from the report.

(5) Fund expenditures - This column reflects the extent to which the fund obligations shown in column (2) have been liquidated. By analyzing the difference between these columns, management can check on unpaid bills, undelivered orders, and the validity of unliquidated obligations.

(6) Total cost - This column reflects the cost of services and ✓ property recorded against the current year authority or limitation as shown in column (7). The cost column in the current report does not

reflect true cost (the value of goods and services consumed during the period) due to the fact that the accrual aspect of the cost accounting system will not become effective until 1 July 1959. For example, personal services that have been rendered through the end of the month but have not been paid for are not now being shown as cost until payment is made. The accrual aspect will show unpaid salaries as cost. However, the column does have a value in having operating personnel become familiar with cost data and in comparing the cost against total authorization (column 7) to evaluate progress and ^{use} ~~utilization~~ of resources.

(7) Project/Administrative Limitation - This column shows the dollar limitation placed by the Project Review Committee or other administrative authority on projects, organizational units, or other activities. Its present use is to enable management to compare the ^{use} ~~utilization~~ of obligating authority as reflected in column (4) and the accumulation of costs as reflected in column (6) with the approved limitation. Through such a comparative review, management is enabled to take action to correct unfavorable trends or to adjust authorities to use resources. Beginning with ~~fiscal~~ year 1960, the approved operating cost budget limitation will be shown in this column and will serve as the control with which management will compare accumulated costs.

The Cost-Center Report is the Comptroller's tool of communication to management for comparative and decision-making purposes. Does the report serve your needs? Only you, the user, can tell the Comptroller. Your comments and suggestions are welcome at all times and are especially requested during this developmental stage.